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Arizona Corporation Commission

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANT AND PROPERTY,
AND FOR ADJUSTMENTS TO ITS RATES
AND CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS WESTERN GROUP
AND FOR CERTAIN RELATED
APPROVALS.

DOCKET NO. W-01445A-11-0310

**NOTICE OF FILING
SUMMARIES OF TESTIMONY**

Pursuant to the Procedural Order dated September 20, 2011, Applicant Arizona Water Company (the "Company") provides notice of the filing of Summaries of Testimony for William M. Garfield, Joel M. Reiker, Joseph D. Harris, Fredrick K. Schneider, Dr. Thomas M. Zepp and Pauline M. Ahern in the above-entitled matter. The Company expects to call these witnesses beginning on Monday, May 14, 2012 and Tuesday, May 15, 2012. [One or more of these witnesses is expected to file rejoinder testimony on May 11, 2012. The attached summaries do not address that testimony.]

RESPECTFULLY SUBMITTED this 9th day of May, 2012.

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By

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Attorneys for Arizona Water Company

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8 this 9th day of May, 2012, to:

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1 **ARIZONA WATER COMPANY**
2 **DOCKET NO. W-01445A-11-0310**
3 **RATE APPLICATION**

4 **SUMMARY OF THE TESTIMONY OF WILLIAM M. GARFIELD**
5 **ON BEHALF OF ARIZONA WATER COMPANY**

6 Mr. Garfield is President and Chief Operating Officer of Arizona Water Company
7 (the "Company"). Mr. Garfield holds a Bachelor of Science degree (with honors) in
8 Thermal and Environmental Engineering from Southern Illinois University, and has taken
9 post-graduate coursework at Arizona State University in Civil Engineering, including
10 hydrology, water and wastewater treatment and statistics. Among other things,
11 Mr. Garfield is a member of Tau Beta Pi, a national honorary engineering society, the
12 American Water Works Association, serving on that association's Water Meter Standards
13 Committee, and the Arizona Water Association. Mr. Garfield also serves on the Board of
14 Directors for the Water Infrastructure Finance Authority of Arizona and for the Water
15 Utilities Association of Arizona. Mr. Garfield has been employed by the Company since
16 1984.

17 Mr. Garfield prepared direct testimony on behalf of the Company. His pre-filed
18 testimony addresses: (i) the general need and justification for the Company's rate
19 application; (ii) the Company's obligation to provide safe, reliable and adequate water
20 service; (iii) the aging infrastructure in the Company's Eastern Group water systems; (iv)
21 factors affecting the Company's ability to reduce water losses; (v) the costs to replace
22 aging infrastructure necessary to reduce water losses; (vi) the Company's proposed
23 Distribution System Improvement Charge ("DSIC"); (vii) the need to continue the
24 Company's consolidation plan for the Eastern Group; (viii) the success of the Arsenic Cost
25 Recovery Mechanism ("ACRM") and the need to continue the ACRM; and (ix) the
26 Company's ongoing conservation efforts and Best Management Practices ("BMPs") and
27 the need to fund BMPs.

28 With respect to the general basis for the Company's present rate application,
Mr. Garfield will testify that due to increased investments in utility plant, increases in
operating and maintenance expense, declining water sales and the increased cost of capital

1 since the Company's last rate decision, the Company's revenues are insufficient to cover
2 expenses and provide a reasonable return on its invested capital.

3 Mr. Garfield will also testify concerning the Company's obligation to provide safe,
4 reliable and adequate water service to its customers under both controlling law and
5 Commission decision. Specifically, he will testify that the Company is obligated to reduce
6 non-account water (i.e., water losses) to less than 10 percent for all of its water systems
7 under Commission Decision No. 71845. Mr. Garfield will testify as to the causes of
8 ongoing water losses, the Company's efforts to reduce water losses and the costs
9 associated with such efforts. Mr. Garfield will explain that the costs to replace aging
10 infrastructure necessary to reduce water losses too Commission mandated levels represent
11 an extraordinary expense that cannot be met through normal operating income, and that it
12 would take hundreds of years for the Company to fully replace its aging infrastructure
13 under current rates.

14 Because of the aging infrastructure in the Company's Eastern Group systems and
15 the effect such infrastructure has on the Company's ability to reduce water losses, Mr.
16 Garfield will testify as to the need for the implementation of a DSIC, a recovery
17 mechanism comparable to the Company's successful ACRM. Mr. Garfield will explain
18 that a DSIC type mechanism has been adopted by other Public Utility Commissions and
19 recommended as a "Best Practice" by the National Association of Regulatory Utility
20 Commissioners ("NARUC"). Mr. Garfield will testify that Commission policy regarding
21 water loss, the extraordinary nature of the costs facing the Company and the benefits to
22 consumers all justify implementation of a DSIC in this proceeding. Mr. Garfield will also
23 testify that several projects completed since the end of the Test Year that were necessary to
24 reduce water losses to less than 10 percent in various Eastern Group water systems should
25 be included in rate base.

26 Mr. Garfield will also testify about the Company's study of and need for additional
27 consolidation among the Eastern Group systems. He will testify as to the Commission's
28 prior approval of partial consolidation of portions of the Eastern Group water systems and

1 the need for full consolidation of the Company's San Manuel, Oracle and Saddlebrooke
2 Ranch water systems into a new Falcon Valley system and the continuation of the phased
3 consolidation of the Company's Bisbee and Sierra Vista water systems.

4 Mr. Garfield will also testify as to the history and success of the Company's ACRM
5 and the need to continue the ACRM in the Eastern Group water systems. He will further
6 testify as to the Company's ongoing conservation efforts and current BMPs and the need to
7 fund BMPs in this proceeding.

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ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310
RATE APPLICATION

SUMMARY OF THE TESTIMONY OF JOEL M. REIKER
ON BEHALF OF ARIZONA WATER COMPANY

Mr. Reiker is Vice President – Rates and Revenues of the Company. Mr. Reiker holds a Bachelor of Science degree in Global Business with a specialization in financial management from the Arizona State University School of Management. He has attended various educational programs and classes on public utility and regulatory issues, including the NARUC and Institutes of Public Utilities' Studies program at Michigan State University. He is a member of the Society of Utility and Regulatory Financial Analysts and is a Certified Rate of Return Analyst. He is also a member of the American Water Works Association. From 1999 to 2005, Mr. Reiker was employed by the Commission as a Staff Rate Analyst in the Utilities Division. Subsequently, he was employed by American Water Works Service Company as Senior Regulatory Analyst. He has been employed by the Company since 2007.

Mr. Reiker prepared direct and rebuttal testimony on behalf of the Company in this case. His pre-filed testimony address numerous issues and adjustments including: (i) the development of rate base; (ii) the Company's working capital requirement; and (iii) net operating income for the Company's Eastern Group for the historical twelve month period ending December 31, 2010. Mr. Reiker also sponsors the calculation of the associated increase in gross revenue requirement, as well as the Company's cost of service study and proposed rate design for each system in the Eastern Group. Mr. Reiker also addresses the Company's proposed changes to its service charge tariff and purchased water expenses in the San Manuel system.

Mr. Reiker will respond to Staff's and RUCO's proposed rates and the specific adjustments proposed by both to the Company's Application. He will also explain that RUCO's proposed approach to operating income for the Saddlebrooke Ranch system would result in rates that would produce an operating loss to the Company. Because the

1 Commission does not generally require utilities with a negative rate base to operate at a
2 loss, the Company takes issue with that approach and recommends that it not be adopted.

3 Mr. Reiker will also testify that the Staff's proposed adjustment to retire two wells
4 in the Superstition system should be rejected, as one of the wells is currently in service.
5 Mr. Reiker further proposes adjustments to the appropriate accounting entries to reflect the
6 retirement of the other well.

7 Mr. Reiker also responds to Staff's and RUCO's exclusion of the equity cost
8 component of working capital. The Company is indifferent to the inclusion of operating
9 income in the cash working capital component of working capital. However, if the
10 Commission includes one component of operating income in working capital, such as the
11 debt component accepted by Staff and RUCO, then all operating income components
12 should be included.

13 Mr. Reiker will also rebut RUCO's recommendation of a reduction to Utility Plant
14 in Service in the Company's Saddlebrooke Ranch system. Mr. Reiker will testify that the
15 unreconciled difference highlighted by RUCO represents plant additions to the system in
16 2007 that were omitted from the Company's original responses to data requests.

17 Mr. Reiker will testify that the Company does not accept Staff's and RUCO's
18 proposed adjustment to fleet fuel expenses. Specifically, the Company rejects Staff's use
19 of the average cost of gasoline for the twelve months ending December 2011 and RUCO's
20 use of a spot price from January 2012 to calculate their respective adjustments. The price
21 of fuel has risen significantly higher than the twelve month average utilized by Staff or the
22 spot price used by RUCO, with no expectation of lower prices in the near future.

23 Mr. Reiker will testify that the Company does not accept Staff's rejection of the
24 Company's proposed normalization of Pumping and Transmission & Distribution
25 ("T&D") maintenance expenses or RUCO's proposed adjustment to such expenses. Water
26 utilities operate in a rising-cost industry. Staff's use of a four-year regression analysis in
27 support of its position is inappropriate as it fails to capture the long-term pattern of
28 infrastructure related costs by focusing on a time period in which the Company

1 temporarily cut T&D expenses in response to abnormal economic conditions. Without any
2 supporting evidence, Staff assumes that these temporary cost saving measures represent
3 long-term improvements in operating efficiencies. They are not. RUCO, while agreeing
4 that the Test Year levels of Pumping and T&D maintenance expenses were abnormally
5 low, proposes an increase that does not reflect the long-term rising cost trend of such
6 expenses. By using a three-year average, RUCO significantly understates the normalized
7 expenses.

8 Mr. Reiker will also testify that the Company does not accept Staff's and RUCO's
9 recommendations with respect to rate case expense. Mr. Reiker will testify that Staff's and
10 RUCO's recommendations are unreasonable when compared to the Company's previously
11 approved rate case expenses. He will also testify that Staff's proposal fails to take into
12 account the actual costs incurred by the Company. Mr. Reiker will also testify that a
13 combined rate case is far more complex and inefficient than the individual group case now
14 being pursued by the Company. As a result, the Company has yet to recover a portion of
15 the rate case expense approved in its last Company-wide rate proceeding. That amount
16 should be included in rate case expense in this proceeding.

17 Mr. Reiker will testify that the Company does not accept Staff's proposed
18 adjustment to depreciation expense related to deferred Central Arizona Project charges
19 currently included in the Superstition system's rate base. The Commission has approved a
20 10-year amortization period. However, the rates adopted by the Commission reflected at
21 32.17-year amortization period. The Company has proposed an adjustment to correct this
22 error. Staff's position would extend the amortization period approved by the Commission
23 in Decision No. 66849 by approximately three years.

24 Mr. Reiker will also testify that recent known and measurable increases to the
25 effective property tax rate should be included in calculation of property tax expense.

26 Finally, Mr. Reiker will testify as to the known and quantifiable decline in water
27 usage that is affecting the Company and respond to Staff's and RUCO's rejection of the
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1 Company's proposed adjustments to billing determinants to design rates to account for
2 such declining usage.

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1 **ARIZONA WATER COMPANY**
2 **DOCKET NO. W-01445A-11-0310**
3 **RATE APPLICATION**

4 **SUMMARY OF THE TESTIMONY OF JOSEPH D. HARRIS**
5 **ON BEHALF OF ARIZONA WATER COMPANY**

6 Mr. Harris is Vice President and Treasurer of the Company. He has held those
7 positions since 2007. He holds a Bachelor of Science degree in Accounting from
8 Eastern Illinois University and is a Certified Public Accountant in the State of
9 Illinois. He is a member of the American Institute of Certified Public Accountants.

10 Mr. Harris prepared direct and rebuttal testimony on behalf of the Company in
11 this proceeding. His pre-filed testimony: (i) provides an overview of the Application;
12 (ii) addresses the appropriate weighted average cost of capital; (iii) discusses
13 continuation of the ACRM for the Eastern Group; (iv) discusses the Company's
14 proposed continued consolidation of the Eastern Group water systems; and (v)
15 addresses the Company's proposed off-site facilities fee.

16 Mr. Harris will testify as to the circumstances leading to the filing of the
17 Company's present Application, including the Commission's direction to the
18 Company in Decision No. 62754 to file a permanent rate application for the
19 Saddlebrooke Ranch system within 36 months of providing service to its first
20 permanent customer. Mr. Harris will testify that operating costs and investment in
21 needed utility plant have increased since the Company's last rate case, while
22 customer water sales have fallen. As a result, the Company's actual Return on Rate
23 Base for the Eastern Group for 2010 was 4.73 percent, well short of the 7.87 percent
24 authorized by the Commission in Decision No. 71845. He will also testify to the
25 extraordinary efforts that the Company has undertaken since 2008 to reduce costs,
26 including staff reductions, wage and hiring freezes and significant reductions to the
27 Company's capital budget. Mr. Harris will testify that despite these measures, which
28 cannot be sustained long-term without adversely impacting the Company's ability to

1 provide adequate, safe and reliable water service to customers, the Company will not
2 recover its cost of service under prevailing rates.

3 Mr. Harris will also address the Company's capital structure and its proposed
4 weighted average cost of capital, which should be not less than 9.72 percent. He will
5 testify that the Company's weighted average embedded cost of long-term debt is 6.82
6 percent, and that the cost of common equity should be 12.5 percent (as determined by
7 Company witness Dr. Thomas M. Zepp).

8 Mr. Harris will also testify as to the need for additional arsenic removal
9 facilities in the Superstition system, the cost of such facilities and the need to
10 continue the ACRM for the Eastern Group.

11 Mr. Harris will also address the Company's consolidation study and principles
12 and the need for additional consolidation among the Eastern Group systems.
13 Specifically, Mr. Harris will testify as to the Company's plans to operationally
14 consolidate the San Manuel, Oracle and Saddlebrooke Ranch systems into a new
15 system known as the Falcon Valley system. He will testify that the Company's cost
16 of service study shows that consolidation will produce rates that are equal to or below
17 the residential cost of service, avoiding residential subsidies. He will also rebut
18 Staff's suggestion that these systems not be consolidated due to adverse impacts on
19 San Manuel and Saddlebrooke Ranch customers. Mr. Harris will also testify as to
20 other jurisdictions' approval of DSIC-type mechanisms, the Commission's recently
21 stated opinion concerning a DSIC, the Company's DSIC study that was filed with the
22 Commission, the extraordinary costs associated with replacing aging infrastructure in
23 the Eastern Group and the Company's inability to replace that aging infrastructure as
24 part of its ongoing maintenance and replacement program. He will testify as to the
25 components of the Company's proposed DSIC, the estimated financial effects of a
26 DSIC on the Company's customers, and the benefits to the Company's customers
27 associated with a DSIC. Mr. Harris will also rebut Staff's suggestion that the
28 Company's infrastructure replacement needs are routine expenditures.

1 With respect to Staff's proposed Sustainable Water Loss Improvement
2 Program ("SWIP"), Mr. Harris will address how Staff's proposed program would
3 delay recovery of the costs of service and result in severe rate shocks to consumers.
4 He will also testify that the SWIP is not "credit supportive" in that it does not provide
5 increased cash flows necessary to attract the capital needed to replace the Company's
6 aging infrastructure.

7 Finally, Mr. Harris will testify as to the appropriateness and need for the
8 Company proposed off-site facilities fee and the adoption of Staff's proposed level of
9 fees.

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1 **ARIZONA WATER COMPANY**
2 **DOCKET NO. W-01445A-11-0310**
3 **RATE APPLICATION**

4 **SUMMARY OF THE TESTIMONY OF FREDRICK K. SCHNEIDER**
5 **ON BEHALF OF ARIZONA WATER COMPANY**

6 Mr. Schneider is the Vice President of Engineering of the Company. He has
7 held that position since 2007. He holds a Bachelor of Science degree in Hydrology
8 from the College of Engineering and Mines at the University of Arizona. Mr.
9 Schneider is a registered professional engineer in the State of Arizona. He is also an
10 Arizona Department of Environmental Quality certified water and wastewater
11 operator. He is a member of the American Water Works Association, the Water
12 Environment Federation and the Arizona Water Association.

13 Mr. Schneider prepared direct and rebuttal testimony on behalf of the
14 Company in this proceeding. His pre-filed testimony discusses: (i) the need for and
15 the appropriateness of including post-Test Year plant additions in rate base for the
16 Cochise, Superstition and Oracle water systems; (ii) the Company's planning and
17 budgeting process for such additions and improvements; (iii) Company-funded utility
18 plant additions since the last rate proceeding; (iv) the need for additions to the arsenic
19 removal facilities in the Superstition Division; (v) Company-wide transmission and
20 distribution system maintenance costs; (vi) lost and unaccounted for water and the
21 Company's ongoing efforts to reduce water loss; (vii) the service line and water main
22 replacements required to reduce water loss in the Bisbee and Oracle water systems
23 and the Superstition Division to levels set by the Commission; and (viii) the status
24 and nature of the Company's proposed Superstition CAP Treatment Plant and its
25 relation to the Company's proposed off-site facilities fee.

26 Mr. Schneider will testify as to the plant additions and replacement projects,
27 including but not limited to replacement of failing water lines, expansion of the Oasis
28 arsenic removal facility, replacement of obsolete control equipment and well

1 renovations, completed by the Company in 2011. He will also rebut Staff's
2 suggestion that Miami Well No. 17 is not in service and should be retired.

3 Mr. Schneider will further testify as to the process the Company undertakes to
4 identify necessary Company-funded utility plant construction projects. He will also
5 testify as to the plant additions funded by the Company in its Eastern Group since its
6 last rate case.

7 Mr. Schneider will also address the need for expansion of the Company's
8 arsenic removal facilities in the Eastern Group and the Company's plans to expand
9 those facilities utilizing the ACRM.

10 Mr. Schneider will also testify as to the Company's comprehensive program
11 for managing water loss. Much of the Company's efforts at reducing water loss are
12 focused on maintenance of its T&D systems. Mr. Schneider will testify that the
13 Company has been forced by the economic downturn to temporarily reduce its T&D
14 expenses but that T&D expenses should increase to normal levels sufficient to
15 maintain adequate and reliable service, at the expense of the Company's ability to
16 address water losses as mandated by the Commission. He will rebut Staff's position
17 that the Company's Pumping and T&D expenses since 2008 have been normal.
18 Absent significant increases to such expense categories, the Company will not be
19 able to proactively address water loss and reduce the water losses for all its Eastern
20 Group systems below 10 percent.

21 Mr. Schneider will also quantify the need for and cost of replacing aging
22 infrastructure in the Eastern Group. He will testify as to the age, materials and
23 quantities of the infrastructure in service and in need of replacement. He will also
24 quantify the cost of the replacements needed between 2011 and 2020. At current
25 replacement rates, the Company will not be able to adequately replace its failing
26 infrastructure. Mr. Schneider will also identify several projects that the Company has
27 completed in an effort to reduce its water losses below 10 percent. He will also
28 address the Company's proposed replacement program for aging infrastructure in the

1 Eastern Group and the anticipated cost of that program. Mr. Schneider will also
2 testify as to the Company's Report on its Plan to Reduce Water Losses that was
3 docketed with the Commission on December 30, 2011.

4 Mr. Schneider will testify that the Company will use the funds derived from
5 its proposed off-site facilities fee to fund major regional water supply and treatment
6 facilities needed to meet the water supply requirements of the Company. Primarily,
7 the fee will be used to construct the planned Superstition CAP Regional Surface
8 Water Treatment Plant and the associated mains, storage tanks and booster pump
9 stations needed for its operation. The preliminary estimated cost of that facility is
10 \$8.8 million in today's dollars. Implementation of the proposed off-site facilities fee
11 would enable that facility to be built without rate impacts on existing customers.
12 Construction of the first phase of the plant would begin when sufficient funds had
13 been collected from the off-site facilities fee.

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1 ARIZONA WATER COMPANY
2 DOCKET NO. W-01445A-11-0310
3 RATE APPLICATION

4 SUMMARY OF THE TESTIMONY OF DR. THOMAS M. ZEPP
5 ON BEHALF OF ARIZONA WATER COMPANY

6 Dr. Zepp is an economist and the Vice President of Utility Resources, Inc., a
7 consulting firm that provides economic and financial studies relevant to utility
8 service and valuation. He received his Ph.D. in economics from the University of
9 Florida. Prior to 1985, he was a consultant at Zinder Companies and a Senior
10 economist on the staff of the Oregon Public Utility Commissioner. Before those
11 positions, Dr. Zepp taught business and economic courses at the graduate and
12 undergraduate levels. Dr. Zepp has testified on various topics before regulatory
13 commissions, courts and legislative committees in 22 states, before two Canadian
14 regulatory authorities, and before four Federal agencies.

15 Dr. Zepp prepared direct and rebuttal testimony on behalf of the Company in
16 this case regarding the Company's cost of equity. He recommends that the Company
17 be authorized a return on equity ("ROE") of 12.5 percent in this case.

18 Dr. Zepp will discuss the concept of a fair rate of return and specific risks
19 faced by the Company compared to the publicly traded water companies used in his
20 analysis. He will testify as to the principles and methodologies he used to determine
21 a fair ROE for the Company. Specifically, Dr. Zepp will describe the cost of capital
22 study that he undertook with respect to the Company's Application. He will also
23 testify as to the approaches he used, the data set and sample companies he relied
24 upon and his conclusion as to the appropriate ROE that should be applied to achieve
25 a fair rate of return on the Company's Eastern Group operations.

26 Dr. Zepp undertook both a Discounted Cash Flow ("DCF") analysis and a
27 Capital Asset Pricing Model ("CAPM") analysis based on methods and inputs that
28 have been approved in other rate cases to determine an appropriate cost of equity. As
part of that analysis, Dr. Zepp determined the appropriate risk premium to be applied

1 in light of the Company's size and business specific risks. Dr. Zepp's analyses
2 support an authorized ROE of 12.5 percent for the Company's Eastern Group.

3 Dr. Zepp will also respond to the testimony and recommendations of Staff's
4 and RUCO's respective witnesses on these issues. Dr. Zepp will explain how
5 RUCO's witness has advocated a number of techniques that are inappropriate and
6 artificially bias RUCO's cost of equity estimates downward. For instance, RUCO
7 has used a sample group of natural gas distribution companies as a proxy for the
8 Company, even though the use of such utilities as proxies was rejected in earlier rate
9 cases. If these errors were corrected, RUCO's estimate of cost of equity would rise
10 substantially.

11 Similarly, Dr. Zepp will explain that RUCO's CAPM analysis is facially
12 flawed and unreasonable as its results are lower than the expected yield on an
13 investment-grade corporate bond. Dr. Zepp will discuss how RUCO's witness relied
14 upon inappropriate data that understates the estimated risk free value and market risk
15 premiums that are crucial to the CAPM analysis. RUCO's selection of such data
16 biases its estimate of cost of equity downward.

17 Dr. Zepp will also explain how Staff's witness has made several significant
18 errors in performing his cost of equity estimates. For instance, Staff's representative
19 sample of utility companies excludes one company that meets Staff's stated criteria
20 for inclusion in its analysis. Staff's witness also utilizes several inappropriate
21 techniques that artificially bias Staff's cost of equity estimate downward. If these
22 errors were corrected, Staff's estimate of cost of equity would be significantly higher.

23 Dr. Zepp will also testify as to several studies indicating that analysts'
24 forecasts of long-term growth are not upwardly biased and that Staff's and RUCO's
25 claims to the contrary are unsupported by the evidence.
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ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310
RATE APPLICATION

SUMMARY OF THE TESTIMONY OF PAULINE M. AHERN
ON BEHALF OF ARIZONA WATER COMPANY

Ms. Ahern is a financial analyst and a principal of AUS Consultants. Ms. Ahern holds a Bachelor of Arts degree in Economics (with honors) from Clark University. She also holds a Master of Business Administration (with high honors) with a concentration in finance from Rutgers University. Ms. Ahern has provided expert testimony on behalf of investor-owned utilities before 26 state regulatory commissions and state tax commissions. She also calculates and maintains the American Gas Association's monthly Gas Index, the benchmark against which the performance of the American Gas Index Fund is measured. Ms. Ahern is also the publisher of AUS Utility Reports. She is a Board Member of the Society of Utility and Financial Analysts, has served two terms as President of that organization, and is a Certified Rate of Return Analyst. She is also an associate member of the National Associations of Water Companies, serving on its Finance/Accounting/Taxation Committee, a member of the Energy Association of Pennsylvania and a member of the American Finance and Financial Management Association.

Ms. Ahern prepared rebuttal testimony on behalf of the Company in this case. Her pre-filed testimony responds to Staff's and RUCO's positions on the Company's proposed DSIC. In addition, Ms. Ahern responds to the adequacy of Staff's and RUCO's respective cost of equity recommendations.

Ms. Ahern will testify that regulatory lag and Staff's proposed rejection of the Company's proposed DSIC will cause the Company's current financial distress to continue and negatively impact its ability to finance and construct the infrastructure needed to provide safe, reliable and adequate water service to consumers. She will also testify as to the risks facing water utilities in general and the Company in particular. Ms. Ahern will discuss how a DSIC-like mechanism can help to mitigate those known risks and provide substantial benefits to consumers, including smaller, more regularly timed rate

1 increases. Ms. Ahern will further testify that RUCO's stated reasons for rejecting a DSIC
2 are erroneous. As noted by other Company witnesses, the magnitude of the Company's
3 need to replace and repair aging infrastructure is not an ordinary capital expenditure, but is
4 akin to the ACRM. Ms. Ahern will also testify that DSIC or DSIC-like mechanisms are
5 widely accepted, have been adopted throughout the United States and are considered credit
6 supportive by major credit rating agencies. As such, adoption of a DSIC allows a utility to
7 attract new capital on reasonable terms, supporting a fair rate of return for the utility.

8 Ms. Ahern will finally testify that Staff's and RUCO's cost of equity
9 recommendations are inadequate for the water utility industry in general and for the
10 Company specifically in light of near-term and longer-term capital expenditure needs.

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